

HAMMER METALS LIMITED
ABN 87 095 092 158
and its Controlled Entities

INTERIM FINANCIAL REPORT

6 MONTHS ENDED

31 DECEMBER 2015

DIRECTORS' REPORT

The directors present their report together with the condensed consolidated financial report for the six months ended 31 December 2015 and the review report thereon.

DIRECTORS

The directors of the Company at any time during or since the end of the half year are:

Mr Russell Davis Chairman	Director since 13 January 2014
Mr Alex Hewlett Executive Director	Director since 26 June 2013
Mr Nader El Sayed Non Executive Director	Director since 26 June 2013
Mr Simon Bodensteiner Non Executive Director	Director since 8 September 2015
Mr Patrick Corr Non Executive Director	Resigned 8 September 2015

REVIEW OF OPERATIONS

The Group incurred an after tax loss attributable to equity holders of the parent entity for the half year ended 31 December 2015 of \$457,346 (31 December 2014: loss \$1,237,740).

The Group operated during the period as a mineral explorer in Queensland and Western Australia.

The Company raised \$1,080,600 during the period by:

- Private placement of 5,843,334 shares at \$0.06 raising \$350,600 (with 2,921,667 free attaching unlisted options expiring 30 July 2017);
- Issuing a convertible note of \$650,000 to its largest shareholder Deutsche Rohstoff AG (with 5,416,667 free attaching unlisted options expiring 30 July 2017). The loan term is 24 months with interest accruing at 10% per annum and convertible by either the Lender or the Company.
- Share purchase plan raising \$80,000 by issuance of 1,600,000 shares at \$0.05 to participating shareholders.

The following options were issued during the period:

- 8,338,334 unlisted options expiring 30 July 2017 with an exercise price of \$0.10
- 500,000 unlisted options expiring 6 August 2017 with an exercise price of \$0.10
- 1,000,000 unlisted options expiring 30 November 2017 with an exercise price of \$0.10

Further details of the options are disclosed in Notes 9 and 10 to the financial statements.

Queensland projects

Mount Isa Region Projects

The Company's projects in the Mount Isa region comprise approximately 2000km² of granted tenements and tenement applications which encompass Iron Oxide Copper-Gold (IOCG) prospects and shear-hosted base metal and gold prospects.

The Company is targeting the large and previously unrecognised IOCG alteration systems the Company has outlined within its Mount Isa Project. The ability to discover such large outcropping IOCG systems that are still largely untested is testament to the project's prospectivity and continues to highlight the potential of this section of the Mount Isa Inlier for new discoveries.

Exploration during the half year ended December 31st 2015 focussed on improving definition of drill targets with programs of geological mapping and detailed soil and rock chip geochemistry at Hammer's Overlander, Hammertime and Kalman West projects. The Mineral Resource Estimate for the Overlander copper deposits was also updated following the successful drilling programs completed earlier in the year.

In December 2015, the Company executed a farm-in and JV agreement with Newmont Exploration Pty Ltd (Newmont), encompassing three of Hammer's IOCG prospects – Overlander, Even Steven and Dronfield, covering approximately 250km² of Hammer's 2011km² Mount Isa project which includes 17 sub-blocks of EPM's 14232, 18116 and 25369 held 100% by Hammer and all sub-blocks in EPM18084 (Dronfield) in which Hammer can earn an 80% interest. The joint venture is targeting an Ernest Henry style IOCG copper- gold deposit. Hammer will manage the initial joint venture exploration activities utilising in-house technical support from Newmont. Hammer retains 100% ownership of the existing resources at Kalman (Cu-Au-Mo-Re), Overlander (Cu) and Mt Philp (Fe).

In the first half of 2016 exploration programs will be undertaken on the three JV prospects as well as Hammer's 100% owned prospects including Hammertime, Kalman West and Scalper. The new geophysical and geochemical data being collected by the field programs currently underway will be incorporated into the existing datasets and models and reprocessed prior to drill testing. The Kalman resource model will also be updated to incorporate the most recent shallow drilling results.

A regional targeting study was initiated over the Mount Isa region during the half year with applications for several new tenements considered prospective for IOCG deposit secured in early 2016.

Summary of terms of the Mount Isa Farmin and Joint Venture

Newmont can earn up to 75% of Hammer's interest in the JV area by spending US\$10,500,000 as follows:

- US\$75,000 reimbursed to Hammer on commencement for project consolidation costs
- Newmont can earn 35% interest in the Farm-in area by spending a total of US\$1,450,000 within two years of commencement date (Stage 1) including a minimum of US\$500,000 expenditure within 9 months before it can withdraw
- Newmont can then elect to earn up to a 65% interest by spending an additional US\$3,050,000 within two years of earning the 35% interest (Stage 2)
- If Hammer does not elect to contribute to further expenditure at this point Newmont can elect to earn up to a 75% interest by funding additional expenditure of US\$6,000,000 or by completing a pre-feasibility study (Stage 3).

At Hammer's option Newmont can earn up to an 80% interest by financing Hammer's share of future expenditure until production commences (Stage 4).

Hammer will manage the exploration for the Farm-in / Joint Venture until Newmont has completed Stage 2 expenditure and has earned a 65% interest.

Mount Morgan Region

The Golden Peaks project is located to the southeast of the Mount Morgan gold-copper mine in Central Queensland which produced over 8,000,000 ounces of gold and 387,000 tonnes of copper. The Company has a farm-in agreement with Perilya Limited over EPM15810. A comprehensive review of the project data was completed which will form the basis for the further exploration for volcanic hosted massive base metal sulphide mineralisation. No field work has been conducted in this period to December 2015.

WA Projects

Pilbara Iron Ore Project

No field work has been undertaken.

The remaining tenure over the Pilbara iron ore project has been converted to a retention license.

EVENTS AFTER BALANCE DATE

There has not been any matter or circumstance that has arisen after balance date that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial periods.

LEAD AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

The lead auditor's independence declaration is set on page 4 and forms part of the directors' report for the half year ended 31 December 2015.

Signed in accordance with a resolution of the directors:



A Hewlett
Executive Director
Perth
Dated 11 March 2016



Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors of Hammer Metals Limited

I declare that, to the best of my knowledge and belief, in relation to the review for half-year ended 31 December 2015 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the review.

KPMG.

KPMG

R Gambitta
Partner

Perth

11 March 2016

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CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2015

	Note	31 December 2015 \$	30 June 2015 \$
Current assets			
Cash and cash equivalents		967,967	391,707
Trade and other receivables		35,931	38,244
Total current assets		<u>1,003,898</u>	<u>429,951</u>
Non-current assets			
Other financial assets		67,500	142,500
Plant and equipment		9,096	8,744
Exploration and evaluation expenditure	7	6,722,995	6,312,460
Total non-current assets		<u>6,799,591</u>	<u>6,463,704</u>
Total Assets		<u>7,803,489</u>	<u>6,893,655</u>
Current liabilities			
Trade and other payables		83,090	139,158
Deferred cash call		361,172	-
Total current liabilities		<u>444,262</u>	<u>139,158</u>
Total Liabilities		<u>444,262</u>	<u>139,158</u>
Net Assets		<u>7,359,227</u>	<u>6,754,497</u>
Equity			
Share capital	8	37,690,454	37,277,606
Reserves	8	2,456,173	1,806,945
Accumulated losses		(32,787,400)	(32,330,054)
Total Equity		<u>7,359,227</u>	<u>6,754,497</u>

This condensed consolidated statement of financial position is to be read in conjunction with the accompanying notes.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 31 DECEMBER 2015

	31 December 2015	31 December 2014
	\$	\$
Continuing operations		
Marketing expenses	(44,794)	(88,872)
Administrative expenses	(261,108)	(341,438)
Share based payments	9 (29,228)	(373,447)
Project evaluation	(12,700)	(31,502)
Depreciation	(2,886)	(10,243)
Occupancy expenses	(22,401)	(22,945)
Loss on sale of exploration assets	-	(185,045)
Impairment of exploration assets	(43,736)	-
Impairment of assets available for sale	(45,000)	(61,028)
Results from operating activities	<u>(461,853)</u>	<u>(1,114,520)</u>
Financial income	4,507	10,316
Financial expenses	-	-
Net financing income	<u>4,507</u>	<u>10,316</u>
Loss before tax	(457,346)	(1,104,204)
Income tax benefit	-	-
Loss for the period from continuing operations	<u>(457,346)</u>	<u>(1,104,204)</u>
Discontinued operations		
Loss from discontinued operation (net of tax)	-	(133,536)
Loss for the period	<u>(457,346)</u>	<u>(1,237,740)</u>
Other comprehensive income		
Net change in fair value of available for sale financial assets	(30,000)	(15,000)
Total comprehensive loss for the period	<u>(487,346)</u>	<u>(1,252,740)</u>
Basic and diluted loss per share	0.43 cents	1.66 cents

This condensed consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the accompanying notes.

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**HAMMER METALS LIMITED
and its Controlled Entities**

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 31 DECEMBER 2015

	Share capital \$	Share based payment reserve \$	Fair value reserve \$	Convertible notes reserve \$	Accumulated losses \$	Total \$
Balance at 1 July 2015	37,277,606	1,776,945	30,000	-	(32,330,054)	6,754,497
Total comprehensive income for the period						
Loss for period	-	-	-	-	(457,346)	(457,346)
Other comprehensive income						
Revaluation of available for sale investment	-	-	(30,000)	-	-	(30,000)
Total comprehensive income for the period	-	-	(30,000)	-	(457,346)	(487,346)
Shares issued for cash	430,600	-	-	-	-	430,600
Costs of share issue	(17,752)	-	-	-	-	(17,752)
Share based payments	-	29,228	-	-	-	29,228
Issue of convertible notes	-	-	-	650,000	-	650,000
Balance at 31 December 2015	37,690,454	1,806,173	-	650,000	(32,787,400)	7,359,227

This condensed consolidated statement of changes in equity is to be read in conjunction with the accompanying notes.

**HAMMER METALS LIMITED
and its Controlled Entities**

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 31 DECEMBER 2015

	Share capital \$	Share based payment reserve \$	Fair value reserve \$	Convertible Notes \$	Accumulated losses \$	Total \$
Balance at 1 July 2014	35,006,678	1,311,392	-	-	(28,417,680)	7,900,390
Total comprehensive income for the period						
Loss for period	-	-	-	-	(1,237,740)	(1,237,740)
Other comprehensive income						
Revaluation of available for sale investment	-	-	(15,000)	-	-	(15,000)
Total comprehensive income for the period	-	-	(15,000)	-	(1,237,740)	(1,252,740)
Shares issued for cash	1,200,000	-	-	-	-	1,200,000
Costs of share issue	(179,072)	92,106	-	-	-	(86,966)
Share based payments	-	373,447	-	-	-	373,447
Balance at 31 December 2014	36,027,606	1,776,945	(15,000)	-	(29,655,420)	8,134,131

This condensed consolidated statement of changes in equity is to be read in conjunction with the accompanying notes.

**HAMMER METALS LIMITED
and its Controlled Entities**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2015

	31 December 2015 \$	31 December 2014 \$
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest received	4,507	10,316
Cash payments in the course of operations	(337,692)	(540,975)
Payments for evaluation of new projects	(12,700)	(31,502)
Net cash used in operating activities	<u>(345,885)</u>	<u>(562,161)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Exploration and evaluation expenditure	(602,085)	(1,324,454)
Reimbursement of exploration and evaluation expenditure from farm-in partner	103,448	-
Payments for purchase of plant and equipment	(3,238)	(5,672)
Research and development tax incentive claim received	-	589,242
Cash calls received from farm-in partner in advance	361,172	-
Net cash used in investing activities	<u>(140,703)</u>	<u>(740,884)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	430,600	1,200,000
Proceeds from convertible note	650,000	-
Transaction costs from issue of shares	(17,752)	(86,965)
Net cash provided by financing activities	<u>1,062,848</u>	<u>1,113,035</u>
Net increase / (decrease) in cash and cash equivalents	576,260	(190,010)
Cash at the beginning of the financial period	<u>391,707</u>	<u>795,187</u>
Cash at the end of the financial period	<u><u>967,967</u></u>	<u><u>605,177</u></u>

This condensed consolidated statement of cash flows is to be read in conjunction with the accompanying notes.

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HAMMER METALS LIMITED and its Controlled Entities

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2015

1. Reporting entity

Hammer Metals Limited (the "Company") is a company domiciled in Australia. These condensed consolidated interim financial statements ('interim financial statements') as at and for the six months ended 31 December 2015 comprise the Company and its subsidiaries (together referred to as the "Group"). The Group is primarily involved in mineral exploration in Western Australia and Queensland.

The consolidated annual financial statements of the Group as at and for the year ended 30 June 2015 is available upon request from the Company's registered office at Suite 1, 827 Beaufort Street Mt Lawley, WA, 6050 or at www.hammermetals.com.au.

2. Statement of compliance

The interim financial statements are general purpose financial statements prepared in accordance with AASB 134: *Interim Financial Reporting* and the Corporations Act 2001.

Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the last annual consolidated financial statements as at and for the year ended 30 June 2015. This report does not include all of the information required for full annual financial report and should be read in conjunction with the consolidated financial report of the Group as at and for the year ended 30 June 2015.

This consolidated interim financial report was approved by the Board of Directors on 11 March 2016.

3. Significant accounting policies

The accounting policies applied by the Group in this condensed consolidated interim financial report are the same as those applied by the Group in its consolidated financial report as at and for the year ended 30 June 2015.

4. Going concern

The financial report has been prepared on the going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the normal course of business.

For the period ended 31 December 2015, the Group has incurred a consolidated loss of \$457,346 and experienced net operating cash outflows of \$345,885 and net investing cash outflows of \$140,703. As at 31 December 2015 the Group had \$967,967 in cash and cash equivalents and net current assets of \$559,636.

During the period, the Group entered into a Farm-in and Joint Venture agreement with a third party that provides the third party an option to fund significant exploration expenditure on the Group's exploration projects, which would significantly reduce the Group's minimum expenditure on these projects. Whilst not required in the immediate term, the Group will need to raise additional funds to meet its ongoing obligations and subject to the results of its ongoing exploration activities, expand or accelerate its work programs.

The Group's capacity to raise additional funds will be impacted by the success of the ongoing exploration activities and market conditions. Additional sources of funding available to the Group include a capital raising via preferential issues to existing shareholders, placements to new and existing investors or through realization of assets.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2015

4. Going concern (continued)

If necessary the Group can delay discretionary exploration expenditure and the directors can also institute cost saving measures to further reduce corporate and administrative costs.

The Directors have reviewed the Group's overall financial position and are of the opinion that the use of the going concern basis of accounting is appropriate as they believe the Group has sufficient funds available for at least the next 12 months and when required will be able to raise further funding via the methods set out above.

The financial report does not contain any adjustments to the amounts or classification of recorded assets or liabilities which might be necessary if the Group was not to continue as a going concern.

5. Use of judgements and estimates

The preparation of the interim financial report requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amount of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this consolidated interim financial report, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial report as at and for the year ended 30 June 2015.

Measurement of fair values

When measuring the fair value of an asset or liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as price) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

If the inputs used to measure the fair value of an asset or a liability are categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level that is significant to the entire measurement.

6. Operating Segments

The Group has four reportable segments being:

- Gold exploration
- Base Metals exploration
- Copper-Gold exploration
- Iron Ore

The Group's operating segments have been determined with reference to the monthly management accounts, program budgets and cash flow forecasts used by the chief operating decision maker to make decisions regarding the Group's operations and allocation of working capital.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2015

6. Operating Segments (continued)

information about reportable segments	Copper - Gold	Gold	Iron Ore (discontinued)	Base Metals	Total Segments	Corporate	Total Consolidated
	\$	\$	\$	\$	\$	\$	\$
For the six months ended 31 December 2015							
Other income	-	-	-	-	-	4,507	4,507
Reportable segment result	(55,090)	-	-	-	(55,090)	(402,256)	(457,346)
Reportable segment assets	6,722,995	-	-	-	6,722,995	1,080,494	7,803,489
Reportable segment liabilities	(409,640)	-	-	-	(409,640)	(34,622)	(444,262)
For the six months ended 31 December 2014							
Other income	-	-	-	-	-	10,316	10,316
Reportable segment result	-	(60,530)	(133,536)	(217,045)	(411,111)	(826,629)	(1,237,740)
Reportable segment assets	7,569,679	-	-	-	7,569,679	755,915	8,325,594
Reportable segment liabilities	(56,199)	(20,481)	(467)	-	(77,147)	(114,316)	(191,463)

7. Exploration and evaluation expenditure

	31 December 2015	30 June 2015
	\$	\$
Balance at the beginning of the period	6,312,460	5,271,109
Exploration and evaluation expenditure incurred	556,301	2,367,853
Reimbursement of costs on exploration and evaluation	(103,448)	-
Exploration and evaluation assets sold	-	(313,545)
Exploration and evaluation expenditure written off	(42,318)	(129,349)
Exploration and evaluation impaired	-	(2,277,879)
Research and Development Tax incentive received	-	(105,732)
Exploration and evaluation assets reclassified from available for sale	-	1,500,000
Balance at the end of the period	<u>6,722,995</u>	<u>6,312,460</u>

The ultimate recoupment of costs carried forward for exploration and evaluation phases is dependent on the successful development and commercial exploitation or sale of the respective areas of interest at an amount greater or equal to the carrying value.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2015

8. Capital and reserves

The following table summarises the shares issued during the six months ended 31 December 2015.

	31 December 2015	30 June 2015
	\$	\$
Issued capital		
109,268,735 (30 June 2015:101,825,401) ordinary fully paid shares	<u>37,690,454</u>	<u>37,277,606</u>
	Number of shares	\$
Movements for Ordinary shares:		
Balance at 30 June 2015	101,825,401	37,277,606
Issued for cash at \$0.06 per share	5,843,334	350,600
Issued for cash at \$0.05 per share	1,600,000	80,000
Cost of shares issued	<u>-</u>	<u>(17,752)</u>
Balance at 31 December 2015	<u>109,268,735</u>	<u>37,690,454</u>
	Number of options	\$
Unlisted options		
Balance at 30 June 2015	29,628,627	1,776,945
Unlisted options exercisable at \$0.10 expiring 30 July 2017 ⁽¹⁾	8,338,334	-
Consultant options exercisable at \$0.10 expiring 6 August 2017 (Note 9)	500,000	15,483
Contractor options exercisable at \$0.10 expiring 30 November 2017 (Note 9)	<u>1,000,000</u>	<u>13,745</u>
	<u>39,466,961</u>	<u>1,806,173</u>

⁽¹⁾The unlisted options issued were free attaching options issued to shareholders whom participated in the \$0.06 per share placement during the period on the basis of 1 option for every 2 shares; and to the convertible note holder on the same basis.

Dividends

No dividends were declared or paid during the six months ended 31 December 2015 (2014: NIL).

	31 December 2015	30 June 2015
Reserves		
Share based payment reserve ⁽¹⁾	1,806,173	1,776,945
Fair value reserve ⁽²⁾	-	30,000
Convertible note reserve ⁽³⁾	<u>650,000</u>	<u>-</u>
	<u>2,456,173</u>	<u>1,806,945</u>

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2015

8. Capital and reserves (continued)

⁽¹⁾The share based payment reserve is used to record the fair value of options issued to Directors and employees under various share based payment schemes and options issued for the acquisition of assets.

⁽²⁾The fair value reserve is used to record changes in the fair value of available for sale investments until the investments are derecognised or impaired. During the period, an available for sale financial asset was impaired and the reserve was transferred to the statement of profit or loss and other comprehensive income

⁽³⁾The convertible note reserve is used to record the face value of convertible notes issued that are accounted for as equity instruments. On 26 July 2015, the Company entered into a convertible note with its largest shareholder Deutsche Rohstoff AG (the "Lender") which has been accounted for as an equity instrument, on the basis there is no obligation by the Company to deliver cash or another financial asset to repay principle or interest.

The term of the convertible note is 24 months with interest accruing at 10% per annum. The conversion price is set at 6 cents and is convertible by either the Lender or the Company at any time during the term subject to the share price being above 6 cents and subject to a minimum of 12 months interest being paid. If not converted prior to maturity date, then at the maturity date, should the share price be less than the conversion price, the Company may elect to convert all or part of the moneys owing under the note into shares; or should the share price be above conversion price, either the Lender or the Company may elect to convert any or all of the moneys owing under the note into shares.

9. Share-based payments

The following options were granted during the period:

Date Granted:	No of options:	Expiry date	Purpose:	Contractual life of option
6 Aug 2015	500,000	6 Aug 2017	For professional services by third party	2 years
20 Nov 2015	1,000,000	30 Nov 2017	To consultants as part of incentive package	2 years

The fair value of services rendered in return for share options is based on the fair value of share options granted, measured using the Black-Scholes model.

The following inputs were used in the measurement of the fair values at grant date of the share based payment plans:

	6 Aug 2015 (Consultant)	20 Nov 2015 (Contractor)
Fair value at grant date	\$0.0309	\$0.0137
Share price at grant date	\$0.073	\$0.047
Exercise price	\$0.10	\$0.10
Expected volatility	94%	89%
Option life	2 years	2 years
Expected dividends	Nil	Nil
Risk-free interest rate (based on government bonds)	1.95%	2.08%

Expected volatility is estimated taking into account historic average share price volatility.

The total amount expended in the statement of profit and loss and other comprehensive income for the period was \$29,228 (2014: \$373,447).

No options lapsed, expired or were exercised during the period.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2015

9. Share-based payments (continued)

The number and weighted average exercise price of share options on issue is as follows:

	No of options	Weighted average exercise price
Outstanding at 1 July 2015	29,628,627	\$0.19
Granted during the period	9,838,334	\$0.10
Expired / lapsed or exercised during the period	-	-
Outstanding at 31 December 2015	<u>39,466,961</u>	<u>\$0.16</u>
Exercisable at 31 December 2015	<u>39,466,961</u>	

10. Exploration Expenditure Commitments

In order to maintain current rights of tenure to exploration tenements the Company is required to perform exploration work to meet the minimum expenditure requirements specified by various State Governments within Australia. These obligations may be reset when application for a mining lease is made and at other times.

The Group has a minimum expenditure commitment on tenure under its control.

The Company can apply for exemption from compliance with the minimum exploration expenditure requirements. Due to the nature and scale of the Company's exploration activities the Company is unable to estimate its likely tenement holdings and therefore minimum expenditure requirements more than 1 year ahead.

The commitment for minimum exploration expenditure payable as at 31 December 2015, payable within one year, is \$1,370,748. These commitments include projects that are subject to a Farm-in and Joint Venture agreement entered into during the period that provides the third party an option to fund significant exploration expenditure on the Group's exploration projects. This would significantly reduce the Group's commitment for minimum exploration expenditure. These obligations are not provided for in the financial report.

11. Subsequent events

There has not been any matter or circumstance that has arisen after balance date that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial periods.

DIRECTORS' DECLARATION

In the opinion of the directors of Hammer Metals Limited ("the Company"):

- a) the condensed consolidated financial statements and notes set out on pages 5 to 15, are in accordance with the Corporations Act 2001, including:
- (i) giving a true and fair view of the Group's financial position as at 31 December 2015 and of its performance for the six month period ended on that date; and
 - (ii) complying with Australian Accounting Standard AASB 134 "Interim Financial Reporting" and the Corporations Regulations 2001; and
- b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors:



A Hewlett
Executive Director

Perth

Dated 11 March 2016



Independent auditor's review report to the members of Hammer Metals Limited Report on the financial report

We have reviewed the accompanying interim financial report of Hammer Metals Limited, which comprises the condensed consolidated statement of financial position as at 31 December 2015, condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the half-year ended on that date, notes 1 to 11 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' responsibility for the half-year financial report

The directors of the company are responsible for the preparation of the interim financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2015 and its performance for the half-year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Hammer Metals Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

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Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of Hammer Metals Limited is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 31 December 2015 and of its performance for the interim period ended on that date; and
- (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

KPMG.

KPMG

A handwritten signature in blue ink, appearing to read 'R Gambitta', with a stylized flourish at the end.

R Gambitta
Partner

Perth

11 March 2016

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